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FM AMEMBASSY RANGOON
TO RUEHC/SECSTATE WASHDC IMMEDIATE 6601
INFO RUCNASE/ASEAN MEMBER COLLECTIVE
RUEHBY/AMEMBASSY CANBERRA 0551
RUEHBJ/AMEMBASSY BEIJING 1529
RUEHKA/AMEMBASSY DHAKA 4621
RUEHNE/AMEMBASSY NEW DELHI 4083
RUEHUL/AMEMBASSY SEOUL 7641
RUEHKO/AMEMBASSY TOKYO 5200
RUEHCN/AMCONSUL CHENGDU 1207
RUEHCHI/AMCONSUL CHIANG MAI 1093
RUEHCI/AMCONSUL KOLKATA 0070
RUEATRS/DEPT OF TREASURY WASHDC
RUEHGV/USMISSION GENEVA 3323
RHEHNSC/NSC WASHDC
RUEKJCS/SECDEF WASHDC
RUEKJCS/JOINT STAFF WASHDC
RUCNDT/USMISSION USUN NEW YORK 0986
RUEHBS/USEU BRUSSELS

C O N F I D E N T I A L SECTION 01 OF 02 RANGOON 000949

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E.O. 12958: DECL: 10/01/2017

TAGS: [ECON](#) [PGOV](#) [EFIN](#) [PREL](#) [BM](#)

SUBJECT: PROTESTS AFFECT BANKING AND DEMAND FOR DOLLARS

REF: RANGOON 901

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Classified By: Economic Officer Samantha A. Carl-Yoder for Reasons 1.4 (b) and (d)

11. (C) Summary. The kyat has depreciated 7.3 percent against the dollar since August 15, due to the unexplained fuel price hike, subsequent rise in commodity prices, and ongoing political turmoil. The number of money changers in Rangoon has decreased, and those left prefer to change and hold dollars rather than FEC, the other local currency that has parity with the dollar. Money changers and Burmese citizens continue to lose confidence in the local currencies, and many Burmese in Rangoon have begun to withdraw their savings from local banks. Although the law prohibits Burmese from holding foreign currencies, more and more people are taking the risk and changing their kyats into dollars. End Summary.

Dollar Preferred Over FEC

12. (SBU) Since the government raised fuel prices on August 15, the value of the kyat has depreciated significantly against the U.S. dollar (Reftel). Between August 15 and September 30, the kyat depreciated 7.3 percent, from a market value of 1305 kyat/\$1 to 1400 kyat/\$1. (Note: the official rate of the kyat remains 6 kyat/\$1. End Note.) During the same period, the kyat has also depreciated 4.6 percent against the FEC, another local currency that is pegged at 1 FEC/\$1, from 1295 kyat/1 FEC to 1355 kyat/1 FEC. Because commodity prices (in kyat) continue to rise, more Burmese prefer to hold dollars rather than kyat or FEC.

13. (C) Several Indian and Chinese money changers told us that the current political turmoil, caused by general

unhappiness with the government, the unexplained fuel price hikes, and increasing commodity prices, was the main reason for the kyat depreciation. Unofficial money changers in Rangoon continue to exchange both dollars and FEC for kyat at the market rate, but there are fewer money changers on the street. According to the Indian money changer, some money changers have fled the country while others were waiting for the political situation to stabilize. Those that remain have a clear preference for dollars rather than FEC, the money changers emphasized. Some money changers have refused to change FEC altogether. Although FEC is an official currency in Burma, it holds no monetary value in other countries; therefore, the money changers gain no financial advantage by changing or holding FEC, they explained. If the government falls, they noted, there was no guarantee that a new government would honor FEC notes. To protect their investment, money changers continue to demand dollars instead of FEC.

Bank Withdrawals on the Rise

¶4. (C) The political situation has also affected the banking sector. The Chairman of the Myanmar Oriental Bank told us that since the monk-led protests began on August 17, people, losing more confidence in the banking sector, have stopped depositing money into their accounts. He also explained that that several banks, including the First Private Bank and Kanbawza Bank, have seen an increase in withdrawals from saving accounts in the past month. People were not closing their accounts, but withdrew much of their savings to pay for basic commodities, he noted. There has been no run on the banks and because banks remain solvent, the recent activity does not constitute a banking crisis, he emphasized.

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¶5. (C) Burmese law makes it illegal for Burmese citizens to hold foreign currency. The Myanmar Oriental Bank Chairman told us that despite the law, regular people, not just Burmese businessmen, have been converting their money into either dollars or gold to prevent a loss of value. There has been no demand for euros or other currency, including Chinese Yuan or Thai baht, he explained, because of the lack of a euro market in Burma and the disadvantageous exchange rates of other currencies compared to the dollar.

Comment

¶6. (C) The number of Burmese living in poverty rises daily, and the unexplained fuel price hikes and subsequent increase commodity prices only exacerbate the situation. In addition, the demonstrations downtown last week filled the areas where many of the money changers congregated. As the situation deteriorates and inflation climbs, one of the few ways the Burmese can express their opinion of their government is by the currency they chose to hold. Dollars and gold are winning that specialized poll over kyat.

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